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BEFORE

THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 89-628-S - ORDER NO. 90-1114

DECEMBER 4, 1990

IN RE: Application of York County Utilities           )  
for Approval of a New Schedule of                    )  
Rates and Charges for Sewerage Treatment        ) ORDER  
Services Provided to its Customers in            )  
its Certificated Service Area in York            )  
County, South Carolina.                            )

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed June 21, 1990, by York County Utilities ("York" or "Company"), requesting approval of a new schedule of rates and charge for sewerage treatment services provided to its customers in its certificated service area in York County, South Carolina. Following receipt of the Application, the Commission issued a Notice of Filing in this Docket and provided same to the company with instructions to publish such notice and mail copies thereof to customers who would be affected by the proposed rate increase.

The Company timely caused the Notice of Filing to be published and duly mailed a copy of the Notice of Filing to each of its customers who would be affected by the proposed rate increase. The Company thereafter filed affidavits with the Commission certifying

that the Notice of Filing had been duly mailed to its affected customer base and had been appropriately published.

According to York's Application, the proposed rates and charges would increase sewer revenue by approximately \$24,952, or 208%. The Company's presently authorized rates and charges were approved by Order No. 85-466, issued on May 31, 1985, in Docket No. 84-483-S and Order No. 83-413, issued on July 20, 1983, in Docket No. 83-114-S.

The Consumer Advocate filed a Petition to Intervene. The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted its discovery in the rate filing of York.

In accordance with the instructions of the Executive Director of the Commission, the Company prefiled the direct testimony of Don E. Neil, and W. D. Hopper.

Subsequently, the Commission Staff prefiled the direct testimony of Norbert M. Thomas, an accountant with the Accounting Department of the Commission's Administrative Division, and Charles A. Creech, Chief of the Water and Wastewater Department of the Commission's Utilities Division.

A public hearing was held at 10:30 a.m. on Thursday, October 25, 1990. Pursuant to §58-3-95, S.C. Code of Laws (Cum. Supp. 1989), a panel of three Commission members composed of Commissioners Bowers, Butler and Mitchell, was designated to hear

and rule on this matter.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. That York County Utilities is a sewer utility providing sewer service in its service areas within South Carolina, and its operations in South Carolina is subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.
2. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending December 31, 1989.
3. That by its Application, the Company is seeking an increase in its rates and charges for sewer service of \$24,952.
4. That the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$13,350 which reflects a \$1,065 increase in per book revenues.
5. That the appropriate operating revenues under the approved rates are \$19,440 which reflects a net authorized increase in operating revenues of \$6,090.

6. That the appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are \$19,138.

7. That the appropriate operating expenses under the approved rates are \$19,240.

8. That the Company's appropriate level of net operating income for return after accounting and pro forma adjustments but prior to rate increase is \$(5,788).

9. That the appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$200.

10. That the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rate.

11. That a fair operating margin that the Company should have the opportunity to earn is 1.03% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

12. That the rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

13. That the rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

III.

EVIDENCE AND CONCLUSION

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 2 AND 3

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of Company witnesses Neil and Hopper.

On June 21, 1990, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$24,952. The Company's filing was based on a test period consisting of the 12 months ending December 31, 1989. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses and investments. Parker v. South Carolina Public Service Commission et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending December 31, 1989, to be the reasonable period for which to make our ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Commission Staff witness Creech.

The Staff proposed to annualize operating revenue based on present customers at present rates. The Commission will adjust book revenues due to the annualization of present rates by \$1,365 as proposed by Staff. This adjustment is appropriate for ratemaking purposes as it reflects the proper level of revenues for

the Company. Also, the Staff proposed to eliminate tap fees from operating revenue. This adjustment of \$(300) is appropriate as tap fees should be classified as contributions in aid of construction in this case.

Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments, are \$13,350 which reflects a \$1,065 increase in revenues.

Using the Commission's Finding of Fact No. 11 and the Evidence and Conclusions, infra., approving a 1.03% operating margin, the Company's operating revenues after the approved increase are \$19,440.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 6 AND 7

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witness Hopper for the Company, and witness Thomas for the Commission Staff.

With the exception of the above adjustments to eliminate tap fees and annualize revenue, the Staff did not recommend including any accounting and pro forma adjustments proposed by the Company. The current manager/operator, Mr. Hopper, stated in his testimony that if the proposed rates in this docket are not approved, he will not take ownership of the system; therefore, the Staff's position was that the proposed adjustment did not meet the ratemaking criteria of "known and measurable" as previously defined in numerous orders of the Commission. The Commission agrees with the

Staff and finds that since it is uncertain whether the current manager/operator will continue to operate and/or own the system, the proposed adjustments do not meet the regulatory criteria of "known and measurable" and must be denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8 AND 9

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, (see, Evidence and Conclusions for Finding of Fact No. 11) net income for return is found by the Commission as illustrated in the following Table:

TABLE A  
NET INCOME FOR RETURN

BEFORE RATE INCREASE	\$
Operating Revenues	13,350
Operating Expenses	19,138
Net Operating Income	(5,788)
Customer Growth	-0-
Net Income for Return	<u>(5,788)</u>
AFTER RATE INCREASE	
Operating Revenues	19,440
Operating Expenses	19,240
Net Operating Income	200
Customer Growth	-0-
Net Income for Return	<u>200</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 10 AND 11

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not



ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann., §58-5-290 (1976), nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate this basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court of South Carolina for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees,

contributions in aid of construction and book value in excess of investment, the utility may request, or the Commission may decide, to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year:

TABLE C

	\$
Operating Revenues	13,350
Operating Expenses	19,138
Net Operating Income (Loss)	(5,788)
Add: Customer Growth	-0-
Total Income for Return (Loss)	(5,788)
Operating Margin (After Interest)	(43.36%)

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein:

TABLE D

	\$
Operating Revenues	36,936
Operating Expenses	22,736
Net Operating Income	14,200
Add: Customer Growth	-0-
Total Income for Return	<u>14,200</u>
Operating Margin (After Interest)	38.45%

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or customer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p.292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. Mr. Neil testified that the sewer systems have become very costly for him to operate and he would like to transfer the systems to Mr. Hopper.

Mr. Hopper testified that he would not accept a transfer of the systems from Mr. Neil unless the Commission granted the full \$38.00 increase. Mr. Hopper stated that an increase from \$13.50 or \$14.00 to \$38.00 was necessary because the systems are very expensive to operate and numerous repairs need to be made to the system.

The Commission is aware of York's need for rate relief but must also take into consideration the effect on the ratepayers of the rate increase proposed by York. The Commission must balance the interests of the Company--the opportunity to make a profit or earn a return on its investment, while providing adequate sewerage service--with the competing interests of the ratepayers--to receive

adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission finds, based on the evidence in the record, that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers. Upon this finding it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that a rate of \$20.00 per month for sewerage service is reasonable and balances the interest of the parties. In light of the factors previously discussed and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 1.03%, which requires annual operating revenues of \$19,440. The following table reflects an operating margin of 1.03%.

TABLE E

	\$
Operating Revenues	19,440
Operating Expenses	19,240
Net Operating Income	<u>200</u>
Add: Customer Growth	<u>-0-</u>
Total Income for Return	<u><u>200</u></u>

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$6,090, the Company has provided justification for such an increase, and the schedule of rates and charges approved herein

depict just and reasonable rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 12 AND 13

The Company presently charges its sewer customers either \$13.50 or \$14.00 per month. The Company proposes to increase the monthly charge to \$38.00. The Commission denies that increase but grants an increase to \$20.00 per month for the reasons set forth hereinabove.

York proposed to increase its tap fee from \$350 to \$500. Mr. Hopper testified as to the costs of building the taps and the Commission finds that the increase is justified based on the evidence in the record.

The Commission approves the request of the Company for a Reconnect Fee of \$250.00 as allowed by the Commission's regulations. The Commission also approves a late charge notice fee of \$6.00.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interest of the Company and those of its affected customers. This results in a reasonable attainment of our ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. That the proposed schedule of rates and charges by the Company are found to be unreasonable and are hereby denied.
2. That the schedule of rates and charges attached hereto as Appendix A, be, and hereby are, approved for service rendered on or after the date of this Order, and the schedules be, and are hereby


deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

3. That should such schedule not be placed in effect until three (3) months of the effective date of this Order, such schedule as contained herein shall not be charged without written permission from the Commission.

4. That the Company shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Sewer Utilities, as adopted by this Commission.

5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Deputy Executive Director

(SEAL)

DOCKET NO. 89-628-S - ORDER NO. 90-1114  
YORK COUNTY UTILITIES  
DECEMBER 4, 1990  
APPENDIX A

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APPENDIX A

Sewer:

Facility Fee	-	\$ 20.00 per month
Tap Fee	-	\$500.00
Reconnect Fee	-	\$250.00
Late Charge Notice Fee	-	\$ 6.00